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FEDERAL MILK MARKETING ORDERS X

Prepared by the Dairy Division  
Agricultural Marketing Service  
United States Department of Agriculture

for

Hearings of the Dairy Sub-Committee of the  
House of Representatives Committee on  
Agriculture

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Note: The material in this report makes reference to the 56 Federal orders effective April 1, 1955. On April 16, 1955, an additional Federal milk order became effective in an area of South Dakota which includes the cities of Aberdeen, Huron, Redfield and Watertown.





## Scope of the Program

At the present time about one-third of the milk sold wholesale by farmers is marketed under the terms of the 56 Federal milk market orders now in effect. Last year more than 186,000 farmers sold 27 billion pounds of milk to purchasers who were required to pay the minimum prices established by these orders. The total value of milk marketed under the program was over one billion dollars for the year.

The markets in which Federal milk orders operate extend through the entire central area of the country from Duluth to New Orleans and San Antonio. They include three large areas and four smaller ones in the Northeast, and an area on the Pacific Coast adjacent to Puget Sound.

The population of these 56 market sales areas calculated on the basis of the 1950 Census represents nearly half of the urban population of the country. An even larger number of consumers are served to some extent from the supply of milk sold under these programs. Sales of whole milk by regulated handlers to consumers outside the defined sales areas amounted to 13 percent of their in-area sales in 1953.

A substantial proportion of milk marketed by farmers in many States is sold to handlers regulated by Federal milk orders. Nearly two-thirds of the milk sold wholesale by farmers in the North Atlantic States and one-half of the milk marketed by farmers in Ohio was sold under the terms of a market order in 1953. More than half of the milk sold wholesale by farmers in Louisiana and Texas was marketed under a Federal milk order. Federally regulated plants in Wisconsin purchased nearly one-fourth of all the deliveries by farmers of whole milk in that State.

## Purpose of Orders

Federal milk orders are legal instruments which define the terms under which dairymen sell their milk to handlers who use it primarily for fluid distribution in a regulated city market. Their purpose is to maintain an orderly marketing of milk by farmers which will assure that consumers are provided at all times with a wholesome and ample supply of milk.

Orderly marketing is effected by the order program through the certainties which an order provides. The terms spelled out as they are in each order are known in advance to both buyers and sellers. The terms are developed with public procedures. Producers, handlers and consumers have an opportunity to take part in these public procedures. The program supplies the basic factual information for use of all such interested groups. Accurate information about supplies and demand for milk in a market is not available in most markets until a Federal order program is instituted with its requirements for complete reporting and verification of reports. This accurate information makes possible decisions on prices which reflect market supply and demand condition.

The orders provide a mechanism for pricing milk according to a plan which is adapted to the peculiar characteristics of the product. Prices are established on a class price plan. Milk sold for fluid use is priced at a level which is consistent with the value of milk for the fluid market and surplus milk is priced at approximately the level of prices paid by dairy product manufacturers for milk they purchase for manufacturing. Both the fluid class and surplus class prices vary with changing supply and demand for milk and dairy products nationally and in the local markets.

Federal milk orders do not guarantee a given level of price - only a price related to other economic conditions. They do not guarantee farmers a market with any buyer. They do create an orderly market condition in which farmers can find a buyer for their milk.

Federal milk orders do not control production or restrict the marketing by farmers of milk in any market. They do not establish sanitary standards. Sanitary regulations applicable to milk sold in fluid markets are administered by local and State health authorities. The regulation of a milk order is limited to the definition of the terms under which handlers must pay for milk which they buy from farmers and sell in regulated fluid markets.

#### Economic and Legislative Background

The fundamental purpose of milk orders can be best understood in terms of the marketing conditions which gave rise to the early requests for legislative action and the subsequent changes in economic conditions which brought about the evolution of milk orders to their present day role.

Before 1933 the most important Federal legislation affecting milk marketing were the Clayton Act of 1914 and the Capper-Volstead Act of 1922. Both of these Acts encouraged, as a matter of public policy, the development of cooperative associations of producers of agricultural commodities. Milk producers, and particularly those selling their milk in city markets, responded to this encouragement and a considerable number of cooperative associations of milk producers grew up in production areas supplying city markets.

These associations found the problems of marketing and pricing milk extremely difficult. During the early periods these associations attempted to bargain with milk dealers for a flat price which would be applicable to all of the milk of their members. Flat prices for milk, however, had peculiarly unstabilizing effects upon the marketing of milk. Under the flat price system each handler paid the same price regardless of the use he made of his milk. Since it was not possible for a handler to calculate his daily requirements for fluid sales with preciseness, and it was even more difficult for the dairy farmer to regulate the production of his dairy herd to match the handler's sales, there normally was an excess of milk in fluid milk plants over the daily fluid requirements. Handlers who had excess supplies usually reacted in one of two ways

They either took fluid sales from other handlers by offering the excess at reduced prices which in turn were passed back to farmers, or they refused to accept the full quantity of milk offered by farmers.

A factor which accentuated the pricing problems created by this lack of balance between sales and production was the enactment by health authorities in many large fluid milk markets during the 1920's of more stringent sanitary regulations relating to milk produced for fluid use. To meet the requirements imposed in fluid markets producers had to invest considerable money in improving the milk producing facilities and take additional care in sterilizing utensils, keeping barns clean, etc. Producers who made such improvements for production of high quality milk expected some compensation in the form of a premium over the prices paid for milk of a manufacturing grade. However, if the dealer handled all his producers' milk during the flush production months, he had to dispose of large quantities of surplus milk during these months. This milk had to be manufactured into products, such as butter and cheese, where it had a lower use value than it would have had as fluid milk or cream. The dealer could not pay the same price for the surplus milk which was used to produce these lower value products as he could pay for milk utilized as fluid milk.

Farmers, through their cooperative associations, devised a plan to encourage handlers to accept milk regularly from farmers who had made the investment required to produce high quality milk, even in periods in which the handlers had no fluid outlets for some of the milk purchased. Through their cooperative associations, they worked out with dealers a system of differentiated prices. These were called classified price plans, and required the payment of a higher price to farmers for milk sold in fluid outlets than for milk processed and sold as a product like butter and cheese. These plans were in effect in a number of the largest markets in the country by about 1920. As an adjunct of these classified pricing plans, various kinds of pooling arrangements were also developed to distribute uniformly to producers the total class values paid by handlers.

During the 20's milk producers attempted, through their cooperative associations, to expand orderly marketing and pricing programs for their milk. They were not entirely successful, however, since the plans which the cooperatives developed depended for their success upon participation by all groups in the market. But there were advantages to minority groups of producers and milk dealers in remaining outside of these plans, and as a consequence the cooperatives were seldom successful in attaining the universal applicability of their plans. During the 20's, however, relative prosperity in the cities and increasing sales of milk made it possible to apply these plans with at least partial success.

The economic pressures during the depression of the early 30's caused the collapse of many of these voluntary plans. At that time, the Congress took action to help milk producers through legislation. The Agricultural Adjustment Act of 1933 first authorized the United States Department of Agriculture to



carry out a program of fixing minimum prices for milk delivered by producers to many of the urban centers of the country. The Agricultural Adjustment Act of 1935 expanded and made more explicit the Department's authority to fix minimum prices for milk. Additional authority and further clarification of the status of milk control legislation were achieved through the passage of the Agricultural Marketing Agreement Act of 1937 - the statute under which the present program of establishing minimum producer prices is carried out. This Act authorizes the Secretary of Agriculture to issue orders or to enter into marketing agreements with handlers for the purpose of regulating the handling of milk in those respects authorized by the Act. Milk orders have been the primary instrument used in regulating milk handlers. A milk order is applicable to all handlers in a regulated marketing area.

Marketing agreements as authorized by the Act are agreements between the Secretary, on the one hand, and milk handlers on the other. They are not agreements between handlers and producers nor among handlers. A marketing agreement may contain, when it is an adjunct of an order, only those terms which are also included in an order, which terms must be authorized by the Act, and it may be issued only if the need for it and the terms it contains are substantiated by evidence introduced at a public hearing. Although marketing agreements are authorized by the Act they have not played an important role because handlers generally fail to sign them in requisite numbers. There are apparently two reasons for this. First a marketing agreement is binding only on those handlers who sign it and second, since a milk marketing agreement must contain terms identical to those of the accompanying order, no additional purpose is accomplished by an agreement. At the present time there are no milk marketing agreements in effect.

An important factor in the expansion of Federal milk orders to new markets in the immediate postwar period has been the need in many areas for a reconciliation of the interests of new producer groups with the interests of producers long established in the market. Present day milk supply areas for our major urban markets extend over wide areas, and widely separated producers bring different economic interests and different viewpoints to the bargaining table. Through the Federal order program, differences of viewpoint on the part of separate groups have been reconciled and decisions reached in accordance with the common welfare and the prescribed standards of the program as set forth in the statute. Minority groups, as well as handlers and consumers, have been guaranteed an impartial consideration of their interests under the program.

Under the impetus of post-war economic developments, an increasing number of producer groups requested the assistance of Federal milk orders in developing effective pricing and marketing programs. The number of Federal orders more than doubled from 1947 to the present time, and seven new orders have become effective during the past twelve months.

Price Levels - The national over-supply of milk and butterfat relative to market sales of milk and dairy products which has existed during a number of post-war years has aggravated the difficulties which confront producers trying to bargain for prices. Normal sales channels have failed to absorb the total supply of milk offered by dairy farmers during this period. This lack of balance between supply and sales has depressed prices paid to dairymen generally. The lower levels of prices have prevailed in Federal order markets, as well as in other fluid markets and in areas producing milk primarily for use in manufactured dairy products.

The attached Figure 1, which shows indexes of Federal order Class I prices <sup>1/</sup> compared with prices paid by condenseries and the United States average of dealers' buying prices for milk used for city distribution as milk and cream, illustrates the sharp drop in all three price series since the peak in 1952. The drop in prices paid at condenseries was relatively greater than the drop in fluid market prices during this period, since the index of manufacturing milk prices reached a peak considerably higher than the fluid series in 1952 and fell from that level to 17 points below the United States average of fluid buying prices in 1953.

Although average Class I prices in Federal order markets moved closely in line with U. S. average fluid buying prices from 1940 to 1946, the Federal order prices have been relatively lower than U. S. average prices since 1947, part of that divergence is probably due to the wider application of the Class I price in the Federal order markets. The Class I price in Federal order markets usually applies to all products which must be made from Grade A milk. Other markets are often not so comprehensive in their Class I definitions or so rigid in the accounting for products in each class. These factors have become more important in recent years and tend to offset the lower level of Class I prices in Federal order markets and produce about the same total return as producers get in unregulated fluid markets.

The changes in Federal order Class I and blend prices and United States average prices of all milk sold wholesale, milk sold for manufacturing and milk sold for fluid use, for each month since January 1954, compared with the corresponding month a year earlier are shown in tables 2 and 3. All prices dropped rather uniformly during the first seven months of 1954 from corresponding months of 1953. In recent months the declines in the fluid buying prices and prices in Federal order markets have been generally less than the drop in manufacturing milk prices from the previous year. However, the March price for manufacturing milk this year was 11 cents per hundred-weight under last March as compared to a 12-cent lower fluid buying price.

1/ Fifteen markets for which data are available 1940 to date include Boston, Chicago, Dubuque, Fall River, Fort Wayne, Kansas City, Louisville, Herrin-mack Valley, New Orleans, New York, Omaha-Lincoln-Council Bluffs, Quad Cities, St. Louis, South Dend-LaPorte and Toledo.

Production Trends - Dairy men in every State except Wyoming contributed to the 8 billion pound increase in milk production from 1952 to 1954. In general, however, the States where dairying produces the largest share of farmers' cash incomes and where alternatives are limited, showed the greatest production increase. These increases occurred in States where prices are unregulated as well as in States where minimum producer prices are established by Federal or State agencies. <sup>1/</sup> These comparisons are shown in the attached table 4 which shows changes in total milk production in the United States, as well as production in selected States where Federal or State price regulation is dominant, and in Minnesota and Wisconsin where the percent of total milk which is priced under Federal orders is relatively small.

Current trends in milk production in Federal order markets are indicated by deliveries per day per dairy. This figure reflects the continuing upward trend in production per cow and size of dairy herd. However, the increases over the previous year are less in recent months than they were early last year (table 5). The number of producers supplying Federal order markets declined during the last half of 1954 and is continuing downward this year.

Milk Supplies in Federal Order Markets - Sales of fluid whole milk in Federal order markets increased significantly during the late months of 1954 and the increases are continuing this year. These increased sales and the leveling off of production reduced surplus milk supplies in Federal order markets in the last quarter of 1954. During this same period national surpluses of milk and dairy products were also substantially reduced.

"Surplus" in fluid milk markets is a term commonly applied to all milk in excess of sales for fluid use. However, some excess results at all times because of the difficulties in balancing variable receipts and sales. The amount of necessary reserve is usually estimated in terms of the ratio of fluid sales to producer receipts during the shortest production month. The amount of reserve which must be carried in that month varies from market to market, depending upon such factors as day-to-day sales variations, whether milk plant employees work on a 5, 6 or 7-day week, and institutional factors which affect the mobility of the supply. Even when the supply of milk is nicely adjusted to the market's fluid needs in this shortest production month, the seasonal rise in production brings surplus milk in other months. In the larger milk markets a reserve of 15 to 25 percent in the shortest month is usually sufficient to balance receipts and fluid sales. During 1953 and 1954, most of the larger markets have carried reserves greater than necessary to meet their fluid needs, but increases in fluid sales relative to receipts have been evident in many markets this year as compared to last. The ratio

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<sup>1/</sup> State agencies regulate prices paid to farmers for milk in 17 States. Deliveries by farmers to plants under State price regulation amounted to 14 billion pounds in 1953.



of fluid sales to producer deliveries for all Federal order markets combined was 74.9 percent in the October-December period of 1954 as compared to 72.5 percent in 1953.

In order to have an adequate supply of milk to meet fluid sales requirements plus a necessary reserve during the short production months, it is necessary to carry a much larger excess during the months of seasonally heavy production. Consequently the percent of producer deliveries sold in the form of fluid items is substantially lower in the April-June period. The average in Federal order markets for that 3-month period was 53.4 percent in 1953 and 52.4 percent in 1954.

The excess deliveries of milk which are not required for fluid sales in Federal order markets are manufactured into dairy products. The principal products in which surplus milk is used in these fluid markets are ice cream, condensed and evaporated whole milk and skim milk, dry milk solids, both whole and nonfat, butter and cheeses, including cottage, cream and specialty cheeses.

During 1953, about 16 percent of the milk delivered to Federal order market plants was made into butter or Cheddar-type cheeses. The 146 million pounds of butter and 100 million pounds of cheese made in Federally regulated plants represented about 10 percent of the total production of each of these products in 1953. Data for 1954 are not yet available on a complete basis but the January-June totals indicate that Federal order markets accounted for about the same percentage of total butter and cheese production as they did a year earlier.

#### Procedures for the Development of an Order

Responsibility for Development - The responsibility of the Federal Government in the development of milk orders is to judge the fairness of the various proposals, to resolve the differences in the public interest and to enforce the orders after they are issued.

The role assigned to the Department of Agriculture in appraising the effects of proposed pricing plans on the different interest groups carries with it an enormous responsibility. The responsibility for arriving at fair and just decisions as they affect the hundreds of milk handlers, the thousands of milk producers and the millions of milk consumers who are directly affected by these Federal milk order programs is a tremendous burden. Handlers of milk and producers of milk as they operate differently and as they are located in different parts of the country are affected in different ways by these marketing plans. Consumers inside Federal milk marketing areas and outside Federal areas may be affected differently by the pricing plans.

The Department's responsibility in analyzing the complex problems which affect the public interest in the marketing of milk could not have been successfully carried out without the framework of public procedures which the Act provided. The public hearing provides the framework within which the interests of all persons may be considered and pricing plans developed which are fair and equitable to all. The public hearing offers an opportunity for minority as well as for majority groups to bring to the attention of the Department their interests and the manner in which they would be affected by any proposed price plant.

The public procedures of the program offer an opportunity for leaders in the dairy industry, for farmer organization leaders and for the specialists from our colleges and universities to have a hand in shaping Government decisions.

The Procedures - The Department of Agriculture undertakes work on a milk pricing regulation only after receipt in the Department of an application for a Federal milk marketing agreement and order accompanied by a detailed proposal for such a regulation. This request for Federal assistance ordinarily is furnished by a cooperative association of producers which is interested in milk regulation for a particular market.

Upon receipt of an application for regulation, an investigation of the market and its problems may be made. The purpose of this investigation is to ascertain preliminarily: (a) Whether the problems sought to be corrected by the proposed marketing agreement and order are ones which may properly be dealt with by Federal regulation; (b) the extent of interstate commerce in the market; (c) the availability of information and statistics regarding the marketing and pricing of milk, and (d) whether in light of the preliminary information the proposed marketing agreement and order would seem to correct the conditions sought to be corrected and whether it would tend to effectuate the declared policy of the Act.

If the investigation discloses the availability of sufficient information, and an indication that an order would improve marketing conditions in the area, a hearing is held in the area where the order would apply. The purpose of the hearing is to afford all interested persons an opportunity to present facts and evidence regarding (1) the desirability and feasibility of issuing a marketing agreement and order and (2) the particular terms and conditions which the regulation, if issued, should contain.

The hub of the milk order proceeding is the public hearing toward which all the preliminary investigation of the market and the accumulation of market information is directed. Likewise the actions taken under a milk order radiate from the public hearing at which the marketing plan was considered. The public hearing on a proposed milk order or an amendment to an order is a requirement of the Agricultural Marketing Agreement Act under which milk orders are authorized, whenever the Secretary of Agriculture has reason to believe that the issuance of such an order will tend to effectuate the declared policy of the Act. The findings by the Department that an order be issued or that an order is not needed in an area and all the terms of a proposed order must be based on the evidence presented at the public hearing.



The hearing is conducted by a presiding officer who is a Hearing Examiner assigned to the Department. All of the testimony is taken under oath or affirmation and is reported verbatim. Any interested person who desires to testify is given an opportunity to be heard on matters relevant and material to the issues under consideration.

At the close of the hearing, interested persons are given an opportunity to file briefs on the issues and subject matter of the hearing. If the evidence of the record supports the issuance of an order, the recommended decision contains a statement of the need for an order, the extent of interstate commerce, and the evidence and reasons which underlie each of the terms and conditions of the recommended order. The recommended order shows the detailed provisions of the proposed regulation. The purpose of the recommended decision and order is to give a preliminary view of the Department's appraisal of the facts and evidence of the hearing record and of the particular terms and conditions which the Department believes should be contained in the regulation.

Interested persons may then file exceptions to the recommended decision and order and, on the basis of these exceptions and a further review of the hearing record, a final decision and order are prepared. This final decision states facts, evidence, and reasons for each of the provisions of the marketing order.

A proposed order is presented to producers for their approval. Producers are required to approve all amendments as a group. They may not pick and choose only those which they prefer. Whenever the Secretary approves substantial changes on the basis of a hearing record, the rejection of such changes by referendum would create the presumption that the order in the absence of such changes would not tend to effectuate the purposes of the Act. The requirement that producers must approve the order in the terms which the Secretary of Agriculture has approved it assures the public and all interested persons that any such order provides only provisions which are in the public interest.

Usually producer approval is determined by a ballot box referendum in the case of a new order and a mail referendum for amendments to existing orders. If producer approval is obvious as in the case of an amendment increasing the price or if cooperative associations representing the required percentage of all producers in the market register their approval of the amendment the referendum may be omitted. The Marketing Agreement Act provides expressly that bona fide cooperative associations of producers may cast a single ballot for their entire membership eligible to vote on a proposed order.

Prior to the issuance of an order or an amendment, the Secretary must find that such order is approved by two-thirds of the producers by number or volume of production, who supplied the market during a designated representative period. If the order established an individual-handler pool the percentage of producers approving the order must be at least 75.

The Marketing Agreement Act requires that handlers be given an opportunity to sign a marketing agreement in which terms and provisions are contained similar to those in a milk order. Most handlers fail or refuse to sign such marketing agreements. Therefore, this procedure is a legal formality with little significance in the program.

## Federal Order Provisions

Milk orders are legal instruments which establish the terms of sales under which handlers purchase milk from farmers primarily for sale to consumers in city markets. There are about a hundred separate provisions in most milk orders which define who is obligated under the order and the exact terms of the obligation.

Marketing Area - The definition of the marketing area is the first important term of an order. The regulation of a milk order applies to the purchase of milk for sale in a designated market area. For example, the Chicago sales area includes the surrounding Cities of Waukegan, Barrington, Elgin and Aurora, Illinois and Hammond and Gary, Indiana, as well as smaller cities and towns in the adjacent territory. The North Texas sales area includes the Cities of Dallas and Fort Worth and extends to smaller cities and towns in an area about 125 miles from the northern to the southern boundary and about the same distance east and west.

The marketing area is designed to include all of an area where the same milk dealers compete with each other for sales of milk, and where such milk must meet essentially the same sanitary inspection standards. Since only handlers doing business within the defined area must pay the minimum prices it is important to draw the boundary line at points where there are relatively few route sales moving across the boundary. This objective has become increasingly difficult to attain in recent years as the fluid milk distribution business has expanded over wider areas, with considerable overlapping of delivery routes. Improved refrigeration and transportation and the paper package have encouraged this expansion of sales areas.

Handler - A handler is a milk dealer who handles milk that is subject to the regulation of an order. In general, he is a person who buys milk from farmers which is delivered to a city plant, or who purchases milk at a country receiving plant and transfers it to the city for sale in fluid products. If handlers all did business in the same way and if the marketing area boundary could be drawn at the exact point where route sales end, the definition of a handler and the application of order regulation would be a relatively simple matter. All handlers would be completely regulated and pay the minimum established prices for milk bought from farmers.

The handling of milk for fluid markets, however, does not fit one mold, and the regulation, if it is not to stifle normal economic development, must recognize the characteristics of the industry. With the large interchange of milk between markets, it has become increasingly important to develop a plan of partial regulation for handlers who do only a small part of their business in a particular marketing area. Thus handlers now are defined as either (1) fully regulated (they pay class prices for all milk purchased from farmers); (2) partially regulated (they pay a compensatory charge on Class I milk sold inside the area); or (3) exempt (they report but make no payments).



Fully regulated handlers are those whose principal business is handling milk for fluid sales in the marketing area. Partially regulated handlers are those who, because their principal business is in another area, would experience an economic disadvantage by full regulation. Exempt handlers include small operators such as producer-handlers, and in some cases handlers who operate only one route in an area. Exempt milk also includes in most areas emergency supplies needed by the fluid market under special circumstances. Exempt emergency milk was common in nearly all markets during the wartime shortages. Now the need for emergency supplies is largely limited to the Oklahoma and Texas markets where the supply of milk approved by local authorities has been insufficient to supply fluid sales particularly in the short production months.

Producer - A producer is a dairy farmer who delivers to a fully regulated handler milk approved for sale as fluid whole milk in the respective market.

Classified Pricing - An order establishes prices by classes according to how the milk is used. Because milk is perishable and subject to contamination there is extra cost of sanitary control on the farm, such as expense of refrigeration and necessity of frequent delivery. Because it is bulky there is high cost involved in hauling it to the market. This makes milk for fluid purposes cost more than milk for manufacturing purposes and a higher price must be paid for it if it is to be provided to the market. Also, sales of fluid milk are fairly even the year around, while production is seasonally higher in the spring than in the fall. When producers deliver enough fall milk to meet fluid consumption, they generally have an excess of milk in the spring months. Thus, milk used for fluid consumption is priced separately under a marketing order at a higher level, and the remainder is priced in line with the lower value of the manufactured dairy products made from such milk.

Of the 56 market orders in effect today, 40 establish only two use classifications, (1) Class I, the primary fluid use and (2) Class II, all other products. Of the remaining 16 markets, three separate price classifications are established in 11 markets. There are four markets, New York, Milwaukee, Chicago and Cincinnati, which have 4 price classifications. The Cleveland order presently establishes 5 separate price classes, although it was recommended recently that the number of classes in this market be reduced.

Class I fluid uses generally include whole milk and modified fluid milk products such as flavored drinks, buttermilk and concentrated milk, which must be produced from locally approved milk. In most markets fluid use also includes sweet and sour cream sold for consumption as cream. However, the New England markets, Philadelphia, Detroit and Cleveland accept cream for fluid use from sources which are not approved as sources for whole milk to be sold for fluid consumption. In these markets cream is not classified as a fluid sales item.

All fluid sales items which must be produced from fully approved milk are priced at approximately the same figure at the point at which they are delivered by farmers. This principle is maintained even in markets like New York and Chicago where fluid cream is defined in a separate class and is accounted for in terms of the milk equivalent of butterfat in the cream. In these markets the value of the cream plus the value of skim milk sold in fluid items approximately equals the price of Class I whole milk. In a market like Kansas City the accounting system achieves that result by accounting for the cream and skim items in terms of the actual weight of each product.

Levels of Class Prices - The policy to be followed in pricing milk under Federal milk orders was established by the Congress and is stated expressly in the Agricultural Marketing Agreement Act. The Act directs the Secretary of Agriculture to establish milk prices which insure a sufficient quantity of pure and wholesome milk and are in the public interest.

The considerations involved in establishing Class I prices and surplus class prices, and the resulting effect upon uniform prices to producers, must all be appraised in the light of the declared policy. Each price makes its contribution to the overall objectives.

Class I Prices - The primary standard for establishing Class I prices under the Act is the concept of equating the supply with the demand for milk in the marketing area. The "price of feeds, the available supplies of feeds, and other economic conditions" referred to in the Act are taken into account as they affect prospective market supply and demand conditions. The "public interest" is served by an adequate supply in terms of a reasonable price.

Formula pricing plans have been developed to establish and maintain Class I prices in accordance with these objectives. With rapidly changing price levels for other commodities and frequent shifts in supply and demand conditions in the market, some mechanism for achieving timely adjustments to changing market situations is necessary. Prices related to well known measures of changing economic conditions in pricing formulas have proved helpful in achieving such adjustments.

There are many factors which affect the production and sale of milk in fluid milk markets. Many of these are not measurable directly, but some of the more important factors are reflected in price series or indexes which are available on a currently published basis. Formula pricing has been developed on a local or regional basis, for one market or a group of closely related markets, to reflect the factors which are considered most important in the particular market or region and for which measures can be obtained.

The Class I formulas in current use are of two general types. In certain Northeastern and Southern markets "economic formulas" relate fluid milk prices to selected economic factors. As an example, in the New England markets these factors relate the milk price to certain costs of production, to changes in per capita disposable income in New England, and changes in the general level of wholesale prices of nearly 900 commodities.

In Midwest markets, so-called "manufacturing milk formulas" are used. Formulas of this type relate the price of Class I milk to market prices of manufactured dairy products or the value of milk for manufacturing purposes. Specified differentials are added to manufacturing values to account for the additional cost of producing inspected milk and the other special economic conditions which influence prices for milk in city markets. These added differentials are designed to equate the supply and demand for inspected milk in the regulated market.



Although formulas of these types are effective in bringing about many of the price changes needed in fluid milk markets, developments in the production of milk and market sales often require changes in the relationships between milk prices and the selected series. An indicator which has helped to call attention to the need for such adjustments in pricing methods is the comparison of Class I sales with the total supply of producer milk available in a current period, as compared to some normal or standard relationship of Class I sales to supply.

In recent years, many of the Class I pricing formulas have been amended to incorporate such an indicator which operates automatically to reduce the Class I price when supplies are excessive, and to raise the Class I price when supplies are inadequate in relation to market requirements. These automatic provisions have been termed "supply-demand adjusters." The type of Class I price formula and whether or not a supply-demand adjuster is used is indicated for each market on table 6.

Although Class I prices in markets having economic type formulas are not directly related to manufacturing milk prices, they tend to move in general alignment with such prices. The data contained in Figure 1 indicate that prices of fluid and manufacturing milk tend to move in the same direction at the same time but that fluid prices do not fluctuate as widely as manufacturing prices. The attached Figure 2, which compares Class I price changes in markets<sup>1/</sup> where economic index formulas are used and in markets<sup>2/</sup> where manufacturing milk values determine price changes, indicates that the economic index type of formula also avoids the wider price fluctuations brought about by the formulas based on manufacturing milk values. I wish to point out that the comparison of the two type of formulas can be made only for the period since 1950. Of the 15 markets in the series only New York, Chicago and Louisville had any type of formula pricing in 1940. Other markets adopted the manufacturing milk price formulas in the early 40's and economic index formulas were not adopted until 1948-1950.

The level of Class I price in any market generally cannot exceed for any length of time the cost of buying the milk in another supply area and transporting it to the consuming market. If a price advantage exists long enough for handlers to recognize the advantages of another supply, they will change their buying arrangements. One of the most important guides to the proper level of Class I prices in any given market is this alternative supply cost.

In order to get some perspective of the pattern of Class I and blend prices in the Federal order markets we have compared the actual Class I and blend prices in each market for the year 1954 with the price of an alternative supply purchased at Shawano, Wisconsin plus transportation cost to the local market. The Class I and blend prices at Shawano are those established under the Chicago order for that location and distances are highway mileages from Shawano or Minneapolis whichever is shorter.

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<sup>1/</sup> Boston, New York, New Orleans, Fall River and Merrimack Valley.

<sup>2/</sup> Chicago, Dubuque, Fort Wayne, Kansas City, Louisville, Omaha-Lincoln-Council Bluffs, Quad Cities, South Bend-LaPorte and Toledo.

Actual transportation costs are available only between points where milk is actually being moved. We have estimated transportation cost according to a schedule of rates published by large dairy transport firm doing business in Wisconsin. These mileage rates have been applied in calculating comparative costs in the different Federal order markets and the results are shown in table 7. The map attached to the table shows the grouping of markets by zones measured from the Minneapolis-Shawano area. The zone boundaries have no particular significance but merely serve as a guide to the data in the table.

As the table demonstrates, nearly all Federal order Class I prices were below the cost of milk transported from this surplus producing area. In a few markets the Class I price of local supplies exceeded the cost of milk imported from the Minnesota-Wisconsin area but except in the New Orleans, Duluth, Sioux City and Omaha markets the difference was less than  $\frac{1}{2}$  cent per quart. The New Orleans Class I price has been under review at a recent hearing largely because of this alternative cost relationship.

The comparison between Class I price in the local market and the cost of procuring milk from an alternative source affects the handler's decision on where he buys milk. It is the comparison of the blend price in one market with the blend price in another and the necessary adjustment for transportation cost which determines which market offers the better opportunity to a producer. The comparison of blend prices and the transportation factor on Table 7 demonstrates the insurmountable barrier which transportation costs erect against producers in the surplus milk producing region increasing their net returns by sales in distant fluid areas.

Surplus Milk Prices - In establishing a price for the surplus milk in a fluid milk market, it is necessary to determine the level of prices being paid to farmers by unregulated handlers in direct competition with the handlers of surplus milk for fluid markets. The prices paid by such unregulated handlers for milk disposed of in similar dairy products are taken as a guide to the value of surplus milk in fluid markets.

It must be recognized, however, that volumes of surplus and the organization of the market for disposing of surplus milk vary considerably from market to market. For this reason the level of surplus prices which will contribute to orderly marketing in one area may be somewhat different from the prices needed in another area. Generally, however, the surplus price is established at the level of competitive prices paid producers at unregulated manufacturing plants, unless there is a clear indication that such prices are not reasonable.

In determining the level of surplus milk prices which will produce orderly marketing, it is important that handlers in fluid milk markets should not be unduly encouraged to manufacture surplus

milk, either by establishing prices more attractive than those paid by competitors in unregulated markets, or by making the handling of surplus milk within the fluid market appear more profitable than the handling of milk for primary uses.

Surplus milk in Federal orders is priced by one of two general types of formulas: (1) formulas based on manufactured dairy product prices, or (2) formulas based on prices paid for milk by unregulated manufacturing plants. The two types of formulas differ only in mechanics, since each is designed to relate the local surplus milk price to the approximate prices being paid by unregulated manufacturing plants for milk made into dairy products.

Uniform Prices to Producers - Because different prices apply to milk disposed of in the several uses, a method of pooling, or distributing the total class value of milk among producers in order to achieve uniformity of returns, is used in conjunction with classified pricing. The Act affords a choice of two methods of pooling returns to producers. One is the market-wide pool, the other is the individual-handler pool. Under a "market-wide" pool, the total money value of all milk delivered by all producers (pounds of milk in each class, multiplied by the minimum class prices and usually adjusted for certain differentials or deductions) is divided by the total amount of producer milk to be priced. Then all producers are paid the same "uniform" or blended price per hundredweight for their milk shipments, adjusted for butterfat variations and other specified differentials. With an "individual-handler" pool, the same computations are made in arriving at each handler's value of milk, and all producers supplying the particular handler are paid the same "uniform" or blended price a hundredweight (which also may be adjusted for butterfat variations and other specified differentials). Under the latter type of pool, if the handlers differ in the proportion of milk used in the different classes, producers of milk of the same grade and test supplying one handler will receive a uniform price which differs from that paid producers supplying other handlers in the market.

Most Federal order markets operate under market-wide pools. Of the 56 markets now in effect, 42 have market-wide pools and 14 have individual-handler pools. The type of pool in each market is indicated in table 8.

The individual-handler type pool operates satisfactorily in markets which are relatively short of milk or where the surplus is distributed evenly among producer groups. Where supplies are short, this type of pooling serves as a means of distributing the available supply among handlers in relation to their fluid sales. The handler with a higher fluid use would have a higher uniform or blended price to his producers and would attract producers from the handler who had more surplus-priced milk.

Market-wide pools on the other hand are best adapted to markets where surpluses are unevenly distributed among producer groups. In



many markets, particularly the larger ones, the reserve supply of milk can be more efficiently handled by consolidating the reserve supply in plants most distant from the market. Often one reserve plant where milk is manufactured much of the year will provide the necessary fluid reserve in the short months for more than one handler. This specialization of function would result in prices at such a plant, under an individual-handler pool being lower than those paid handlers who specialized in fluid sales. With a market pool all approved producers who supply the market regularly, even if only in the short supply period, are paid uniformly according to the total market utilization.

Base-Excess Payment Plans - The pattern of fluid milk sales is relatively even throughout the year. Milk production, on the other hand, is subject to wide seasonal variation. In enacting the Agricultural Marketing Agreement Act of 1937, the Congress recognized the importance of pricing plans which would encourage a greater adjustment of production to existing market needs. In specifying the terms of a milk order, the Act provided that payments to producers could be subject to "a further adjustment, equitably to apportion the total value of milk purchased by any handler, or by all handlers, producers and associations of producers, on the basis of their marketings of milk during a representative period of time."

Since the normal pattern of milk production results in a greater supply during the spring and early summer than during the remainder of the year, base and excess payment plans have been used to encourage producers to make their deliveries in a more even monthly pattern. Under these plans the producer establishes a base during the normally short production season, equal to the average daily quantity of milk delivered. During the flush production season he is then paid the higher base price for quantities of milk delivered within his base, and an excess price for additional milk delivered. The total payments for base and excess milk equal the total payments determined by the class use times the class prices.

The exact terms of base plans vary in different orders but provide generally for establishment of bases in a four to six-month fall and winter period. Payments are then made to producers for base and excess milk in periods ranging from 3 to 12 months following the base-forming period. Producers have an opportunity to establish a new base each year and in some markets there are provisions for developing a base for producers who enter the market after the base-forming period.

There are base-excess price plans in 24 of the 56 Federal order markets at the present time. See table 8 for list of such markets.

The Equalization Fund - Under a market-wide pool the quantity of milk each handler uses in each class is multiplied by the price of that class of milk. These values added together equal the cost of milk to the handler. The cost of milk of all handlers then is totaled. This is divided by the total volume of producer milk of all handlers. The



result is an average price for all milk in the market. This uniform or blended price is what handlers are required to pay producers.

Under this system all producers get the same price (except for certain adjustments described elsewhere in this report), which is the average value of all uses of milk of all handlers, even though a particular producer may deliver to a dealer with higher or lower Class I utilization than the average.

Some handlers have mostly Class I milk (highest price). Other handlers have a larger quantity of surplus milk (lowest price). This results in wide variation among handlers in average producer value or cost of milk. Yet the order requires each handler to pay the same price to producers. This is accomplished by an equalization device known as the "Producer Settlement Fund." Handlers with higher than average cost of milk pay the difference into this fund. This money is paid out to handlers with lower than average cost. The result is "equalization" of cost of milk among all handlers and a uniform price to producers.

This is the simple application of the market-wide pooling system under an order in which all handlers are fully regulated. But actual market situations, as indicated in the discussion of problems which arise in defining a marketing area, do not always fit the simple pattern.

For example, we have the problem of determining how to calculate the pool obligation of a handler who does business in two Federal order markets. Since the class prices in adjacent Federal order markets are closely aligned, it is unnecessary in most areas to make any special provision other than a determination that such handler pay the class prices and account to the equalization fund in the market where he has the greater fluid sales.

In some markets, particularly where the location of a handler's plant would give him a particularly favorable price relative to other handlers in one of the areas, it has been necessary to provide for partial pooling of the handler in both Federal order markets. In these cases, he is required to pay class prices and account for all of his milk in the market pool where he does the most business. He then makes an equalization payment into the market pool where he does a secondary business, similar to the equalization payment made by other handlers in the market. This payment is made on the quantity of Class I milk sold in the secondary market, and is at a rate equal to the difference between the Class I price in that market and the Class I price at which he accounted to the pool in the market of his primary business.

There are 19 market orders which provide for this type of obligation to two Federal order pools.

Partially regulated handlers who do only a small part of their business in any Federally regulated market also make payments into the equalization fund. Historically this type of payments by partially regulated handlers first applied to the milk which producer-handlers sold to pool handlers.

Producer-handlers are generally exempted from the pricing and pooling provisions of an order since their operations are small and regulating a number of small handlers raises the cost of order administration excessively. On the other hand, since producer-handlers who normally have relatively high fluid sales were exempted from equalization, it did not appear reasonable that they should receive the market blended price for occasional surpluses which they had to sell. Therefore, in most markets, it was generally accepted at an early date that if producer-handlers were exempted from equalization, a handler who purchased milk from an exempt producer-handler had to account to the pool for the difference between the Class I price and the surplus price.

In the early years of the program, many instances occurred in which a small quantity of a handler's milk inadvertently found its way into a regulated market. According to the order practices of those days, the handler incurred a considerable obligation for such milk. As the order program was developed and refined, however, it was recognized that the system which had been applied to producer-handlers might be extended to these handlers whose milk was not normally sold in the marketing area. The system of partial regulation relieves such handlers of the obligation to pay minimum class prices for the milk which they receive from farmers and which does not enter the regulated market. Fully regulated handlers pay minimum class prices on all milk received regardless of whether it is sold in the marketing area or outside. Compensatory charges are calculated to eliminate any price advantage which the partially regulated handler would have over a fully regulated handler on milk sold inside the regulated market.

In New England, for example, this privilege of exemption with the attendant compensation payment has facilitated the economic handling of surplus milk which otherwise would be a burden on small handlers in many markets. The Southern New England markets provide a good example of this. Under the exemption-equalization plan small handlers in these markets move their excess milk directly to the Boston city market at a transportation cost much less than would be required to move it to the manufacturing plants located mostly in Northern New England. The handler who receives such milk accounts to the pool at the difference between the Class I price and the surplus price in the area at which the milk was received from producers. An equivalent quantity of Boston pool milk would then remain in the country manufacturing plant and be priced as surplus. By this system, the Boston pool retains its Class I sales value, the partially regulated handler finds a nearby market for his surplus milk, and the transportation charges which would otherwise apply on the movement of surplus milk from Southern New England to Northern New England, and an identical shipment of Class I milk from Northern New England to the Boston market, is saved.

This situation is typical of the northeastern market pools which have manufacturing facilities, and which are surrounded by other fluid markets which often have excess milk which might be used efficiently in these facilities.

The circumstances vary in different parts of the country and, for that reason, the definition of a fully regulated handler varies. The effect of the definition in each case, however, is to include all handlers who make approved milk available to the fluid market on a year-around basis.

The system of compensation payments varies also with the local economic circumstances. In some markets, because of their location close to available supplies of surplus approved milk, low-priced milk may be offered to regulated handlers on a regular or sporadic basis if some price regulation were not imposed. Since handlers who are fully regulated must pay the established class prices for all milk they purchase, the presence of any appreciable quantity of lower-priced milk in the area would disrupt the market, and would not be consistent with the basic principle of uniform pricing required by the Act.

As we look at markets further south, the need for a compensation payment gradually diminishes because, for those markets, the cost of procuring milk from sources outside the local milkshed is normally greater than the cost of local milk. There has been little need up to this time for such provisions in the generally short markets of Oklahoma and Texas. However, a situation did develop in San Antonio in which surplus milk from another Texas market displaced the local supply for a short period.

Compensatory charges are adopted only where the evidence shows that the opportunity to purchase occasional supplies of cheap milk which is offered at surplus prices is likely to disturb the regular market supply. There are markets very close to other cities from which surplus milk could be purchased at distress prices from time to time. Some of these markets have not yet shown the need for a compensatory charge because handlers in those markets prefer to obtain their full supply from their regular suppliers. If they need a larger supply, they make a permanent arrangement with a new source of supply and that source becomes producer milk and is fully regulated.

Differentials - The prices handlers pay and the prices producers receive are always adjusted by butterfat differentials and sometimes by location differentials. The butterfat differentials are quoted in terms of cents per 100 pounds and apply to each "point" (one-tenth of one percentage point) variation from the basic test at which prices are reported. Prices in Federal order markets are quoted at 3.5 percent, 3.7 percent, 3.8 percent and 4.0 percent butterfat. Butterfat differentials vary from 4 to 11 cents.

Differentials for milk delivered at different locations are established in the larger markets. Where all milk is delivered to plants in or near the city market, there is no need for a location differential. The differentials for the New York market extend to a radius of 500 miles and in Chicago to 385 miles.



Market Administrator - Each milk order is administered by a market administrator who employs a staff of auditors and other technicians to assist him in his duties. The expenses of his office are met by an assessment on handlers. The market administrator receives and verifies reports from handlers, calculates and announces the class prices, differentials and the blended prices payable to producers every month, at such times as are specified in the order. He operates the Producer Settlement Fund, that is, he bills and collects amounts due from some handlers and pays out credits due other handlers. He makes rules for applying various terms of the order. He publishes market statistics and other information about the operations of the order. He investigates complaints and violations. He furnishes information as requested by the Secretary of Agriculture, and he may recommend amendments to the Secretary.

Table 1

Federal milk market orders effective on April 1, 1955  
with date each order became effective, average number  
of producers and total producer deliveries in 1954

Market	Date first effective	Average number of producers	Producer Deliveries Millions
Akron, Ohio	Jan. 1, 1955	-	-
Appalachian	Oct. 1, 1954	577	14 <u>1</u> / <sub>2</sub>
Austin-Waco, Texas	Jan. 16, 1955	-	-
Black Hills	July 1, 1954	150	11 <u>2</u> / <sub>2</sub>
Boston	Feb. 9, 1936	12,589	1,627
Cedar Rapids-Iowa City	Sept. 1, 1951	765	125
Central Mississippi	Oct. 1, 1954	1,118	22 <u>1</u> / <sub>2</sub>
Central West Texas	Nov. 1, 1952	736	132
Chicago	Sept. 1, 1939	23,701	4,570
Cincinnati	Nov. 23, 1942	5,055	432
Cleveland	Aug. 1, 1946	8,038	916
Columbus	Feb. 1, 1946	2,160	281
Dayton-Springfield	July 1, 1945	2,557	309
Detroit	Aug. 1, 1951	13,165	1,650
Dubuque	Oct. 1, 1936	262	42
Duluth-Superior	May 5, 1941	1,527	149
Fall River	June 1, 1940	295	52
Fort Smith	Aug. 1, 1952	413	56
Fort Wayne	Oct. 15, 1938	1,208	117
Kansas City	Dec. 1, 1936	3,170	413
Knoxville	July 16, 1949	713	109
Lima	Aug. 1, 1949	545	60
Louisville	Apr. 1, 1940	2,364	303
Memphis	Oct. 1, 1950	1,120	169
Merrimack Valley	Feb. 12, 1939	1,164	155
Milwaukee	Nov. 1, 1950	2,726	472
Minneapolis-St. Paul	Nov. 13, 1945	5,133	748
Muskegon	Sept. 1, 1953	599	75
Nashville	Nov. 16, 1947	1,391	177
Neosho Valley	Nov. 1, 1951	757	102
New Orleans	Oct. 1, 1939	2,764	281
New York	Sept. 1, 1938	50,091	7,765
North Texas	Sept. 1, 1951	3,152	672
Oklahoma City	May 1, 1950	1,425	170
Omaha-Lincoln-Council Bluffs	Apr. 5, 1939	2,583	295
Ozarks	Mar. 1, 1951	1,261	180
Paducah	Jan. 1, 1948	332	35
Philadelphia	Apr. 1, 1942	7,980	1,192
Puget Sound	May 1, 1951	3,769	765
Quad Cities	Feb. 1, 1940	1,237	203

Continued



Table 1

Federal milk market orders effective on April 1, 1955  
with date each order became effective, average number  
of producers and total producer deliveries in 1954

Market	Date first effective	Average number of producers	Continued	
			Producer Deliveries	Millions
Rockford-Freeport	: Aug. 1, 1949	: 250	: 48	
St. Louis	: Feb. 1, 1936	: 4,370	: 569	
San Antonio	: May 1, 1952	: 462	: 147	
Shreveport, La.	: Mar. 15, 1955	: -	: -	
Sioux City	: Apr. 16, 1940	: 535	: 64	
Sioux Falls-Mitchell	: Aug. 1, 1952	: 311	: 55	
South Bend-LaPorte	: Dec. 1, 1947 <sup>4/</sup>	: 928	: 124	
Southwest Kansas	: June 1, 1954	: 384	: 30 <sup>3/</sup>	
Springfield, Mass.	: Dec. 1, 1949	: 1,450	: 202	
Stark Co., Ohio	: Nov. 1, 1952	: 1,214	: 146	
Toledo	: Sept. 16, 1938	: 1,979	: 226	
Topeka	: Jan. 1, 1948	: 502	: 61	
Tri-State - Ky.-O.-W. Va.	: Aug. 1, 1945	: 2,229	: 198	
Tulsa-Muskogee	: Aug. 1, 1953 <sup>5/</sup>	: 1,341	: 201	
Wichita	: June 1, 1944	: 1,026	: 153	
Worcester	: Dec. 1, 1949	: 775	: 120	
53 Market Total		: 186,348	: 27,190	

<sup>1/</sup> November-December.

<sup>2/</sup> August-December.

<sup>3/</sup> July-December.

<sup>4/</sup> Merged - LaPorte Nov. 13, 1937, St. Joseph Co. July 1, 1943.

<sup>5/</sup> Merged - Tulsa May 1, 1950, Muskogee August 1, 1951.

Compiled by the Dairy Division, A.M.S.









Table 3

Weighted average of blend prices to producers in Federal order markets, United States average of prices received for all milk sold wholesale and United States average of prices received for milk sold for manufacturing uses by months, January 1953-March 1955

Month	Federal order average blends (at basic test)			United States milk sold wholesale (actual test)			United States manufacturing milk (actual test)		
	Dollars per 100 lbs.			Dollars per 100 lbs.			Dollars per 100 lbs.		
	1953	1954	1954 over 1953	1953	1954	1954 over 1953	1953	1954	1954 over 1953
January	4.76	4.34	-0.42	4.83	4.38	-0.45	3.89	3.55	-0.34
February	4.56	4.22	-.34	4.62	4.21	-.41	3.71	3.36	-.35
March	4.35	4.06	-.29	4.40	4.03	-.37	3.56	3.22	-.34
April	4.05	3.70	-.35	4.10	3.67	-.43	3.42	2.95	-.47
May	3.85	3.43	-.42	3.92	3.51	-.41	3.35	2.91	-.44
June	3.88	3.46	-.42	3.89	3.49	-.40	3.28	2.89	-.39
July	4.18	3.84	-.34	4.05	3.72	-.33	3.33	2.97	-.36
August	4.27	4.10	-.17	4.18	3.89	-.29	3.39	3.09	-.30
September	4.65	4.34	-.31	4.42	4.13	-.29	3.53	3.24	-.29
October	4.69	4.48	-.21	4.61	4.32	-.29	3.69	3.42	-.27
November	4.76	4.55	-.21	4.69	4.41	-.28	3.74	3.43	-.31
December	4.51	4.40	-.11	4.55	4.33	-.22	3.67	3.39	-.28
	1954	1955	1955 over 1954	1954	1955	1955 over 1954	1954	1955	1955 over 1954
January	4.34	4.24	-.10	4.38	4.19	-.19	3.55	3.27	-.28
February	4.22	4.14	-.08	4.21	4.09	-.12	3.36	3.19	-.17
March	4.06			4.03	3.94	-.09	3.22	3.11	-.11

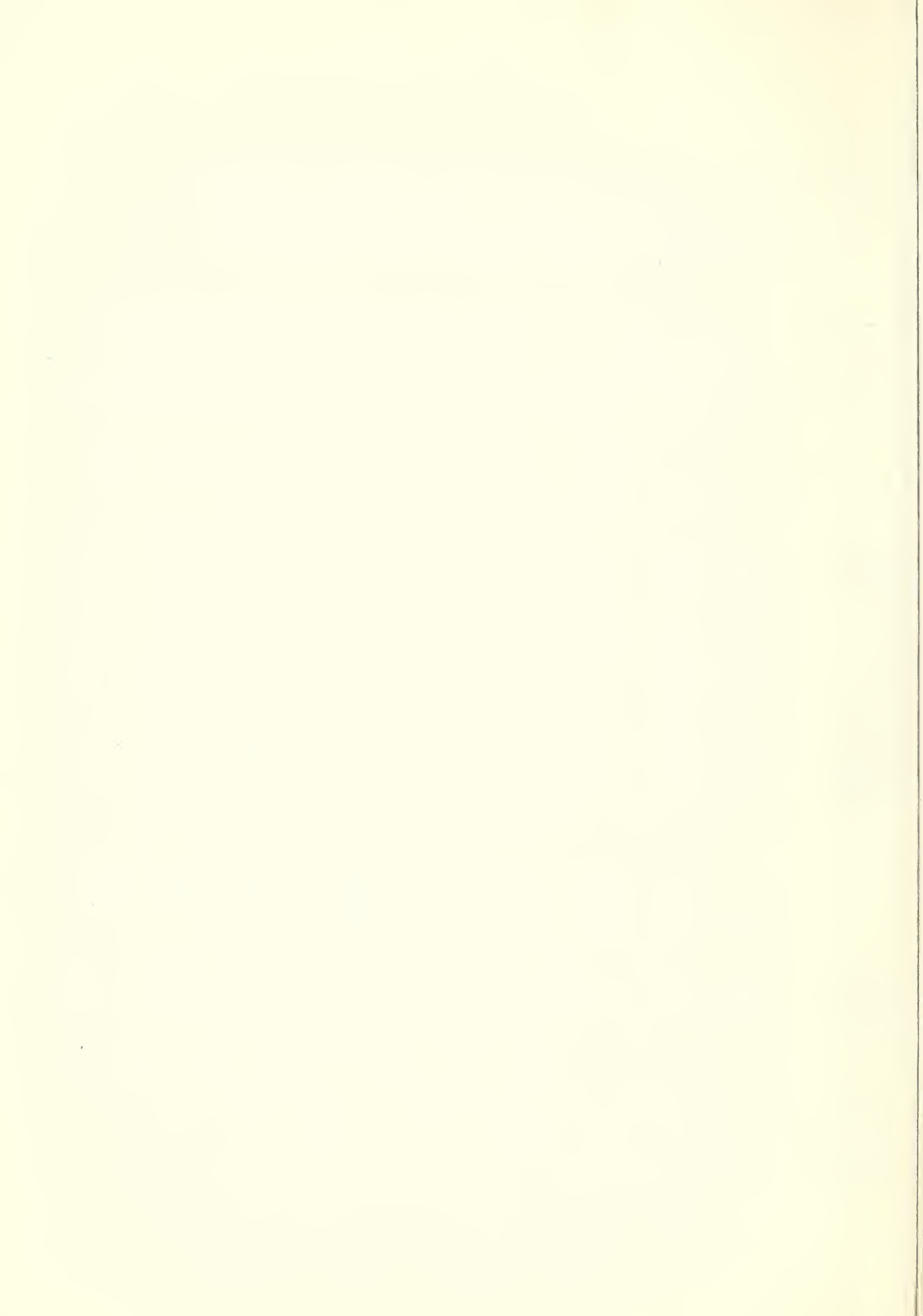


Table 4

Milk production in the United States and selected States in which Federal or State orders priced a large part 1/ of the milk produced or a relatively small part of the total production, 1950-54

			Federally regulated		State regulated		Mostly unregulated	
Year	United States		prices		prices		prices	
			Vermont		New York		Calif.	
							Conn.	
							Minn.	
							Wis.	
		</						

Index (1950 = 100)

1950	100	100	100	100	100	100	100
1951	98	99	100	100	97	98	102
1952	99	100	101	101	96	100	103
1953	104	110	106	110	102	106	108
1954	106	112	107	117	103	107	112

1/ Percent of total milk production in 1953 which was sold under terms of Federal or State regulation: Federal regulation: Vermont 70 percent; New York 65 percent; Minnesota 10 percent; Wisconsin 20 percent. State regulation: California 70 percent; Connecticut 80 percent. There was some additional milk priced by State orders in Vermont and New York and by Federal orders in Connecticut.

Compiled by the Dairy Division, A.M.S.



Table 5

Changes in number of producers, in average deliveries per producer 1/, and in whole milk sales to consumers in the defined market areas 2/ from corresponding month of previous year

Year and Month	Number of Producers	Deliveries Per Producer	Whole Milk Sales
	Percent	Percent	Percent
1954 over 1953	+ 0.2	+ 4.1	+ 2.3
1954			
January	+ 2.0	+ 7.3	+ 1.1
February	+ 1.7	+ 6.9	+ 2.2
March	+ 1.5	+ 5.9	+ 3.4
April	+ 1.1	+ 4.4	+ 2.4
May	+ 0.3	+ 4.0	+ 1.3
June	+ 0.2	+ 3.2	+ 0.4
July	+ 0.0	+ 1.8	+ 1.3
August	- 0.4	- 0.8	+ 1.4
September	- 0.6	+ 3.2	+ 0.2
October	- 0.7	+ 5.0	+ 6.0 <u>3/</u>
November	- 1.1	+ 3.5	+ 3.8
December	- 1.7	+ 2.8	+ 3.5
1955			
January	- 2.7	+ 3.4	+ 4.1
February	- 2.9	+ 2.2	+ 4.0

1/ All markets where data is available on a comparable basis for both months.

2/ Markets where in-area sales can be segregated and which include about two-thirds of the population of all Federally regulated markets.

3/ Shows effect of New York delivery strike in October 1953.





Federal order markets in which Class I price is determined by specified types of formulas, April 1, 1955

Market	Mfg. milk value	Economic index	Automatic: supply- demand factor	Market	Mfg. milk value	Economic index	Automatic supply- demand factor
Akron	X		X 1/	Washville	X		X
Appalachian	X			Neosho Valley	X		X 1/
Austin-Waco, Texas	X		X 1/	New Orleans		X	X
Black Hills	X			New York		X	X
Boston		X	X	North Texas	X		X
Cedar Rapids-Iowa City	X			Oklahoma City	X		X
Central Mississippi	X			Omaha-Lincoln-Council Bluffs	X		
Central West Texas	X		X 1/	Ozarks	X		X 1/
Chicago	X		X	Paducah	X		
Cincinnati	X		X	Philadelphia		X	
Cleveland	X		X	Puget Sound	X		
Columbus	X		X	Quad Cities	X		
Dayton-Springfield	X		X	Rockford-Freeport	X		
Detroit	X		X	St. Louis	X		X 1/
Dubuque	X			San Antonio		X 2/	X
Duluth-Superior	X			Shreveport, La.	X		
Fall River		X	X 1/	Sioux City	X		
Fort Smith	X			Sioux Falls-Mitchell	X		
Fort Wayne	X		X	South Bend-La Porte	X		
Kansas City	X		X	Southwest Kansas	X		X
Knoxville	X		X	Springfield, Mass.		X	X 1/
Lima	X		X 1/	Stark County, Ohio	X		X
Louisville	X			Toledo	X		X
Memphis	X		X	Topeka	X		X
Merrimack Valley		X	X 1/	Tri-State, Ky.-O.-W.Va.	X		X 1/
Milwaukee	X		X	Tulsa-Muskogee	X		X
Minneapolis-St. Paul	X		X 1/	Wichita	X		
Muskegon	X			Worcester		X	X 1/

1/ Class I price is limited by price in another market which has a supply-demand factor.

2/ Index formula is limited in application by a manufacturing milk formula.

Compiled by the Dairy Division, A.M.S.

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Annual average Class I and Blend prices in Federal order markets, per 100 pounds of milk containing 3.5 percent butterfat (f.o.b. marketing area except where mileage is indicated) grouped by zones I/ and compared with prices under Chicago order applicable at Shawano, Wisconsin, plus estimated transportation cost to designated market 2/, 1954									
City market	Class I	Blend	Estimated transportation cost	Miles	Dollars	Actual price over or under Shawano, plus transportation cost	Class I	Blend	Dollars
	Dollars	Dollars	Dollars				Dollars		
<u>Zone I</u>									
Minneapolis, Minnesota	3.73	3.62	0	0	0	+ .22		+ .37	
Shawano, Wisconsin	3.51	3.25	0	0	0	0		0	
<u>Zone II</u>									
Duluth, Minnesota	4.31	3.81	150		.28	+ .52		+ .28	
Dubuque, Iowa	3.85	3.44	260		.49	- .15		- .30	
Milwaukee, Wisconsin	3.68	3.58	150		.28	- .11		+ .05	
Chicago, Illinois (55-70 miles)	3.73	3.47	230		.30 3/	- .08		- .08	
Rockford, Illinois	3.75	3.69	220		.41	- .17		+ .03	
<u>Zone III</u>									
Sioux City, Iowa	4.27	4.00	280		.53	+ .23		+ .22	
Omaha, Nebraska	4.48	4.13	370		.67	+ .30		+ .21	
South Bend, Indiana	3.93	3.64	300		.58	- .16		- .19	
Fort Wayne, Indiana	4.00	3.59	380		.70	- .21		- .36	
<u>Zone IV</u>									
Kansas City, Missouri	4.32	4.03	460		.82	- .01		- .04	
Pittsburg, Kansas	4.45	3.95	590		1.07	- .13		- .37	
Springfield, Missouri	4.07	3.67	600		1.08	- .52		- .66	
St. Louis, Missouri	4.28	4.10	520		.94	- .17		- .09	
Louisville, Kentucky	4.46	3.93	520		.94	+ .01		- .26	
Cincinnati, Ohio	4.57	4.05	510		.92	+ .14		- .12	
Columbus, Ohio	4.27	3.91	530		.95	- .19		- .29	
Toledo, Ohio	4.32	4.14	450		.81	0		+ .08	
Detroit, Michigan	4.29	3.91	490		.88	- .10		- .22	
Cleveland, Ohio	4.46	4.05	570		1.03	- .08		- .23	

Continued





Annual average Class I and Blend prices in Federal order markets, per 100 pounds of milk containing 3.5 percent butterfat (f.o.b. marketing area except where mileage is indicated) grouped by zones 1/ and compared with prices under Chicago order applicable at Shawano, Wisconsin, plus estimated transportation cost to designated market 2/, 1954

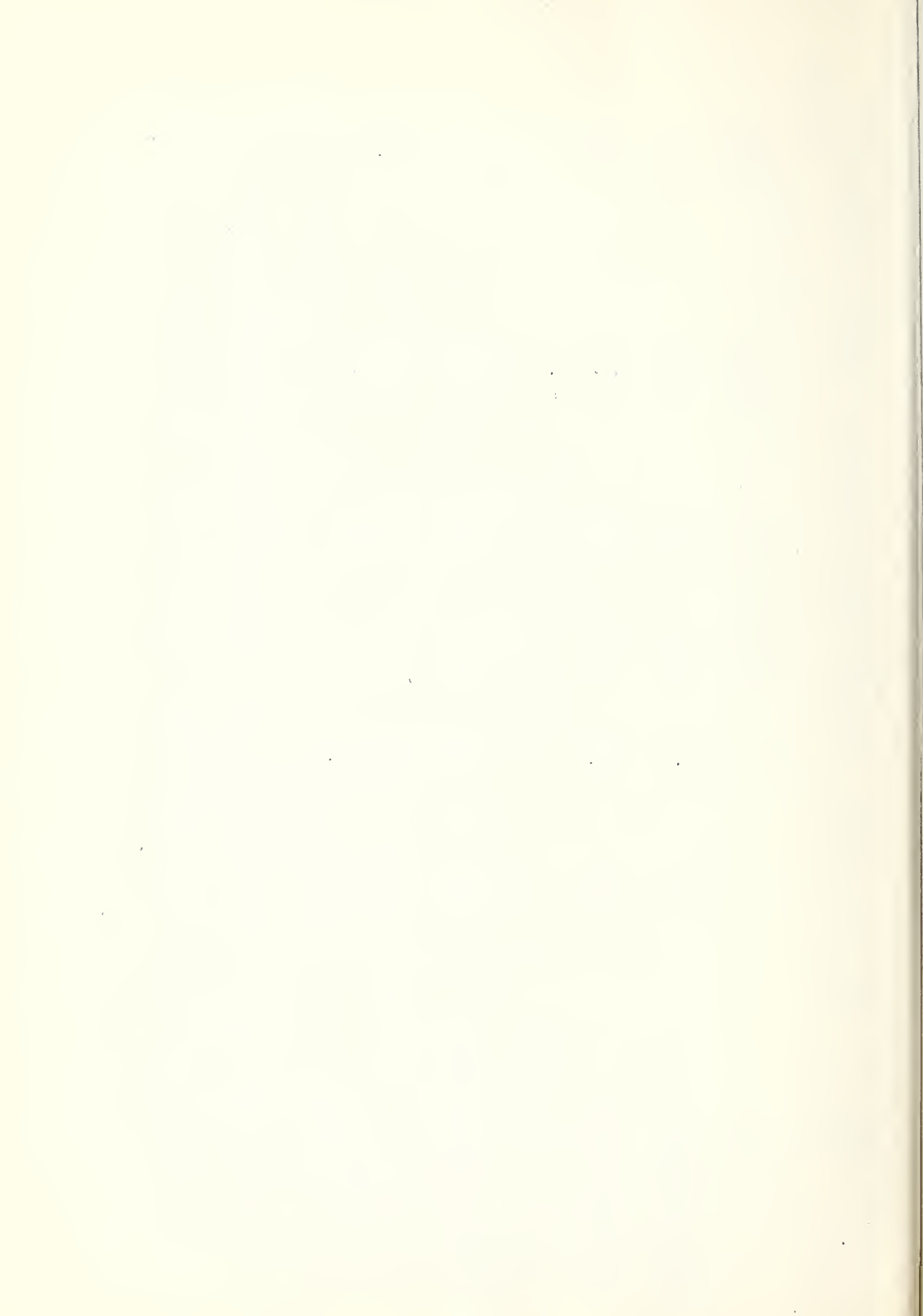
Continued

City market	Class I Dollars	Blend Dollars	Estimated trans- portation cost Miles : Dollars	Actual price over or under plus transportation cost Class I Blend Dollars : Dollars
<u>Zone V</u>				
Tulsa, Oklahoma	4.65	4.23	770 : 1.40	- .26
Oklahoma City, Oklahoma	4.76	4.33	860 : 1.55	- .30
Memphis, Tennessee	4.82	4.59	770 : 1.40	- .09
Nashville, Tennessee	4.35	3.91	670 : 1.21	- .37
Huntington, West Virginia	4.56	4.40	660 : 1.18	- .13
<u>Zone VI</u>				
Boston (201-210 miles)	5.00	4.12	1220 : 1.82 <u>3/</u>	- .33
New York (201-210 miles)	5.13	4.00	1050 : 1.52 <u>3/</u>	+ .10
Philadelphia, Pennsylvania	5.39	4.84	980 : 1.76	+ .12
New Orleans, La. (61-70 miles)	5.84	4.88	1180 : 1.99 <u>3/</u>	+ .34
Dallas, Texas	5.09	4.76	970 : 1.74	- .16
San Antonio, Texas	5.62	5.57	1270 : 2.30	- .19
Seattle, Washington	4.74	4.10	1660 : 1.66	- .02
<u>1/</u> Zones shown on attached map radiate from manufacturing milk producing area around Minneapolis and Shawano.				

2/ Mileage is shortest highway distance from either Minneapolis or Shawano. Rates used are from a schedule quoted by a dairy transport firm operating in Wisconsin and apply to 27,500 pound minimum loads.

3/ Rate reduced by local cost of transportation computed from same schedule: Chicago and New Orleans, 14 cents; New York and Boston, 38 cents.

Compiled by the Dairy Division, A.M.S.



AS OF JANUARY 1, 1955

# Zones from Minneapolis-Shawano







Table 3

Type of Pool in Each Federal Milk Order Market and Markets Where Base-Excess Price Plans are Used,  
April 1, 1955

Order No.	Market	Individual:			Market:			Use:			Order:			Market:			Base-Excess:			Individual:			Market:			Use:		
		Handler	Pool	Order	Wide	Pool	Plan	Excess	Plan	No.	Wide	Pool	Plan	Handler	Pool	Plan	Excess	Plan	No.	Wide	Pool	Plan	Handler	Pool	Plan	Excess	Plan	No.
60	Akron, Ohio	:	:	78	X	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:
23	Appalachian	:	X	23	:	:	X	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:
52	Austin-Waco, Texas	:	X	42	:	:	X	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:
17	Black Hills	:	:	27	:	X	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:
4	Boston	:	:	43	:	X	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:
31	Cedar Rapids-Ia.City	:	:	5	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:
87	Central Mississippi	:	X	35	:	:	X	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:
82	Central West Texas	:	:	21	:	X	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:
41	Chicago	:	:	77	:	X	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:
65	Cincinnati	:	:	61	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:
75	Cleveland	:	:	25	:	X	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:
74	Columbus	:	:	44	:	X	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:
71	Dayton-Springfield	:	:	91	:	X	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:
24	Detroit	:	:	3	:	X	:	X	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:
12	Dubuque	:	:	49	:	X	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:
54	Duluth-Superior	:	:	56	:	X	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:
29	Eastern South Dakota	:	:	43	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:
47	Fall River	:	X	56	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:
76	Fort Smith	:	:	67	:	X	:	X	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:
32	Fort Wayne	:	:	19	:	X	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:
13	Kansas City	:	:	96	:	X	:	X	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:
88	Knoxville	:	:	63	:	X	:	X	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:
95	Lima	:	X	30	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:
46	Louisville	:	:	80	:	X	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:
18	Memphis	:	X	72	:	:	X	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:
34	Merrimack Valley	:	:	6	:	X	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:
7	Milwaukee	:	X	68	:	:	X	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:
73	Minneapolis-St. Paul	:	X	99	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:
85	Muskegon	:	:	:	:	X	:	X	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:

Compiled by the Dairy Division, A.M.S.



Federal order markets with market-wide pools which provide for payments to the equalization fund on milk from partially regulated sources which is received in bulk by a regulated handler and assigned to a fluid use class or which is distributed on routes in the marketing area by a partially regulated handler, April 1, 1955

Order No.	Market	Equalization Payment Required	
		Bulk receipts assigned to fluid classes	Distributed by partially regulated handlers
60	Akron	X	
17	Black Hills	X	X
4	Boston	X	X
31	Cedar Rapids-Iowa City		
32	Central West Texas		X
41	Chicago	X	
65	Cincinnati	X	X
75	Cleveland	X	X
74	Columbus		
71	Dayton-Springfield	X	
24	Detroit	X	
12	Dubuque		
54	Duluth-Superior	X	
76	Fort Smith		
32	Fort Wayne	X	X
13	Kansas City	X	X
88	Knoxville	X	X
46	Louisville	X	X
34	Merrimack Valley	X	X
85	Muskegon		X
28	Neosho Valley		X
27	New York	X	X
43	North Texas		
5	Oklahoma City		
35	Omaha-Lincoln-C. B.	X	
21	Ozarks	X	X
77	Paducah	X	X
25	Puget Sound	X	X
44	Quad Cities		
91	Rockford-Freeport		
3	St. Louis	X	X
49	San Antonio	X	X
48	Sioux City	X	X
56	Sioux Falls-Mitchell	X	X
67	South Bend-La Porte		
19	Southwest Kansas		
96	Springfield, Mass.	X	X
63	Stark County, Ohio	X	X
80	Topeka	X	X
6	Tulsa-Muskogee		
68	Wichita	X	X
99	Worcester	X	X





Figure 1.- CLASS I PRICES IN 15 FEDERAL ORDER MARKETS COMPARED WITH UNITED STATES AVERAGE DEALERS' BUYING PRICE FOR MILK USED FOR CITY DISTRIBUTION AS MILK AND CREAM AND PRICES PAID PRODUCERS BY UNITED STATES CONDENSERIES

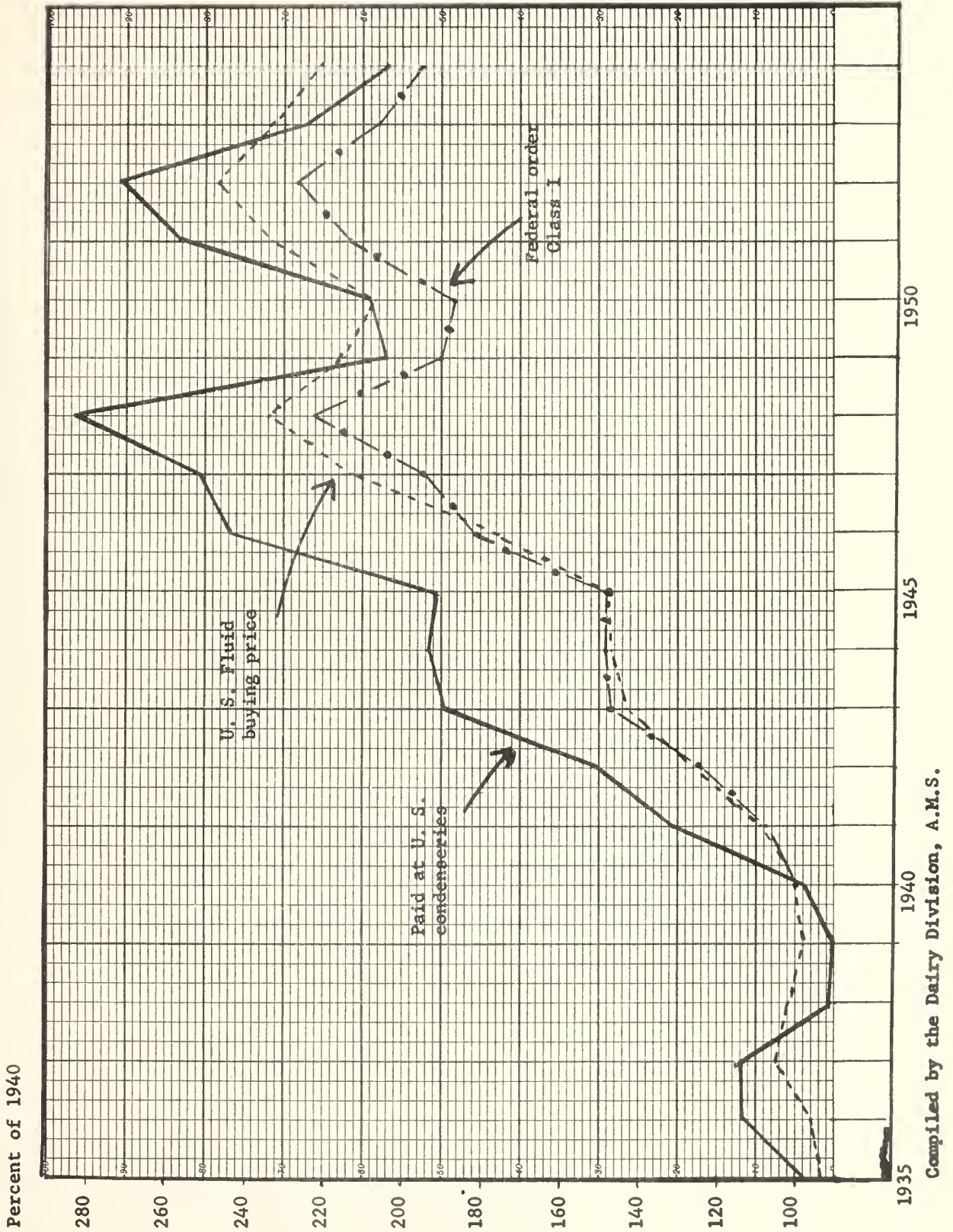
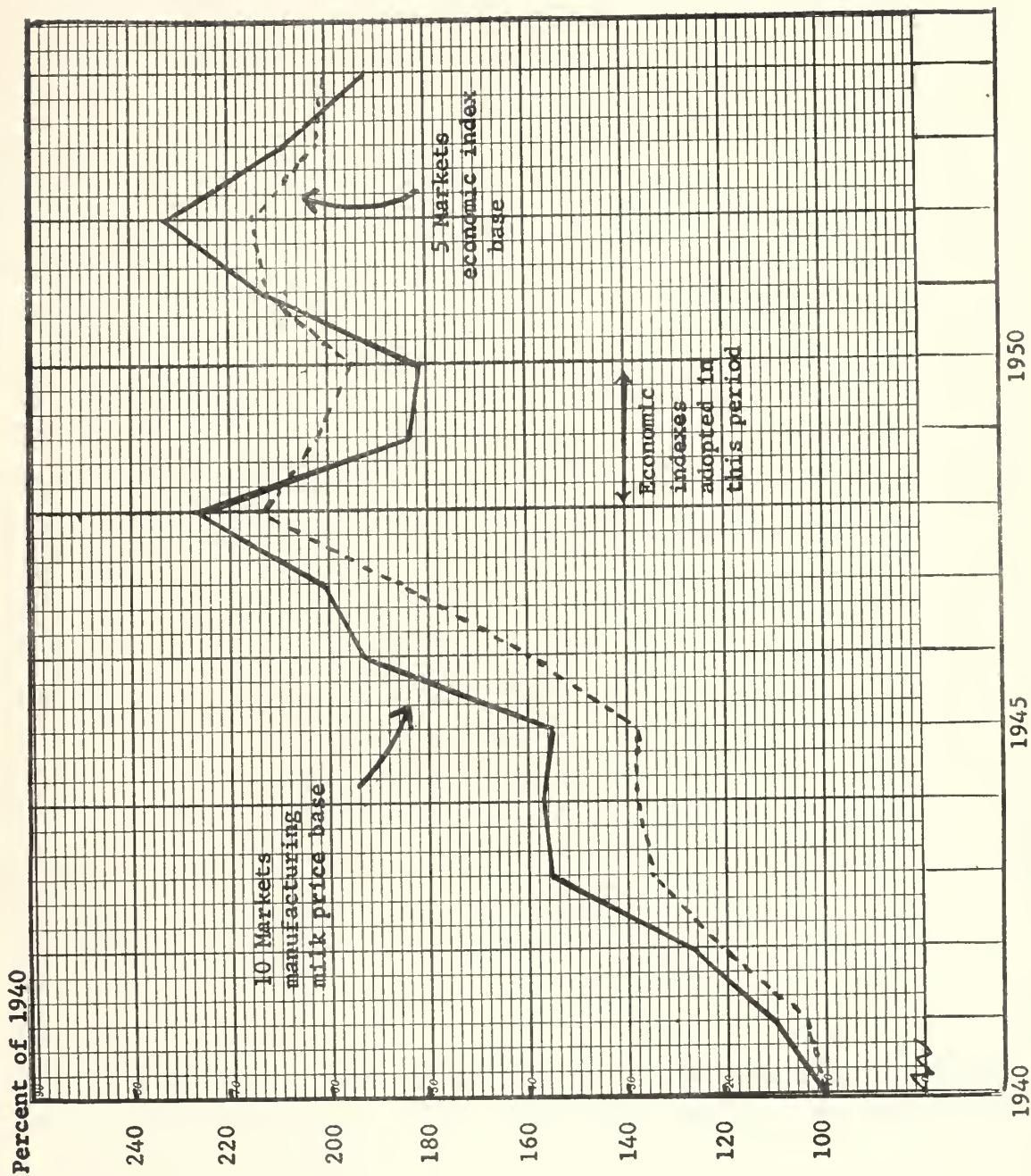




Figure 2.- CLASS I PRICES IN 10 MARKETS WHERE PRICE IS NOW DETERMINED BY A FORMULA BASED ON MANUFACTURING MILK VALUE AND IN 5 MARKETS WHERE PRICE IS DETERMINED ON ECONOMIC INDEX BASE





## (Indexes calculated as percent of 1940)

Year	Figure No. 1				Figure No. 2			
	U. S. Condenseries	U. S. Fluid Buying Price	Federal Order Class I (15 markets)	Manufacturing Milk Price Base (10 markets)	Economic Index Base (5 markets)	Price	Index	Price
	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Percent	Dollars
	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent
1935	1.35	2.05	93					
1936	1.56	2.13	96					
1937	1.57	2.32	105					
1938	1.25	2.26	102					
1939	1.24	2.17	93					
1940	1.38	2.21	100	100	100	2.16	100	2.73
1941	1.81	2.40	109	108	110	2.38	110	2.83
1942	2.08	2.79	126	124	127	2.74	127	3.30
1943	2.61	3.16	143	147	155	3.34	155	3.68
1944	2.66	3.24	147	149	157	3.38	157	3.77
1945	2.63	3.26	148	148	155	3.35	155	3.76
1946	3.36	3.92	177	181	193	4.18	193	4.38
1947	3.46	4.71	213	195	201	4.34	201	5.08
1948	3.90	5.17	234	222	227	4.90	227	5.85
1949	2.81	4.76	215	190	183	3.95	183	5.52
1950	2.87	4.57	207	187	181	3.92	181	5.33
1951	3.53	5.14	233	213	213	4.61	213	5.79
1952	3.74	5.46	247	226	233	5.03	233	5.89
1953	3.11	5.15	233	206	209	4.51	209	5.53
1954	2.82	4.88	221	195	192	4.13	192	5.46

Compiled by the Dairy Division, A.I.I.S.





